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RUEHOK/AMCONSUL OSAKA KOBE IMMEDIATE 8736  
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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 005613

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SUBJECT: FUKUDA TAKES HIT ON PENSIONS, BUT NO BACK-TRACKING  
ON OEF

REF: TOKYO 5569

Classified By: Ambassador J. Thomas Schieffer, reasons 1.4(b),(d).

11. (C) Summary. Uncertainty remains the watchword for Japanese domestic politics in the last two weeks of 2007, as fresh attention on the government's inability to resolve the issue of unidentified pension accounts, coupled with continued ruling and opposition party sparring related to the OEF refueling measure, leads to renewed speculation over Cabinet shuffles, political realignment, Lower House dissolution, and a possible snap general election. The ruling coalition is committed to pass the OEF measure before the extended Diet session closes on January 15. The opposition has vowed to delay a vote on the bill for as long as possible, and may still decide to counter passage with a censure motion, but concedes that the legislation will pass. Despite the new volatility, the general consensus among the Embassy's major political party contacts remains that early elections are not a good idea. End summary.

#### Fukuda's Popularity Drops Sharply Over Pensions

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12. (C) The domestic political situation has again shifted over the past week, with the announcement by Health, Labor, and Welfare Minister Yoichi Masuzoe on December 12 that the government will not be able to meet its commitment to identify the holders of approximately 50 million pension accounts. Prime Minister Yasuo Fukuda's response that the governing coalition has not breached any actual campaign pledges was denounced in the press, where it received unflattering comparisons to similarly dismissive remarks by former Prime Minister Shinzo Abe when the existence of the unidentified pension accounts first gained public attention in May 2007. Fukuda has since apologized.

13. (C) As a result, Fukuda's cabinet support rate has dropped in double-digit increments, from respectable percentages in the upper 40s and low 50s, to the more precarious upper 30s and low 40s. A similar steep decline in public support for Fukuda's Liberal Democratic Party (LDP)-led coalition has put

the main opposition Democratic Party of Japan (DPJ) ahead in the polls, despite the fact that the DPJ gained no more than four percentage points in any of the most recent surveys. Before the latest wrinkle in the pension mess, Fukuda's great strength was seen to be his stability and maturity, and the LDP seemed to be gaining ground against a DPJ that was open to charges of being overly obstructionist. It now appears that the DPJ will seek to exploit the pension issue at the LDP's expense.

#### Diet Session Lurches Toward Anti-Climactic Vote on OEF

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¶4. (C) The re-emergence of the pension issue, which is generally credited as the final nail in the coffin for former Prime Minister Abe and the LDP in the July 29 Upper House elections, complicates matters for Prime Minister Fukuda and gives new momentum to DPJ leader Ichiro Ozawa, according to Embassy contacts. As recently as a week ago, DPJ and media insiders were telling the Embassy that the opposition would likely vote down new anti-terror legislation aimed at resuming Japan's refueling efforts in the Indian Ocean by the end of December, to avoid being seen as irresponsible for holding the bill to the bitter end. Last week, as the media outcry over Fukuda's response to the pension issue rose to a crescendo, DPJ Secretary General Yukio Hatoyama announced that the opposition-controlled Upper House would not take a vote until January.

¶5. (C) The current extraordinary Diet session has been extended for a second time, and will close on January 15, making it one of the longest on record. The Upper House

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Defense and Foreign Affairs Committee will meet on December 20, 25, and 27, and then resume after a brief New Year's break on January 8 and 10. The current plan, according to DPJ contacts and press reports, is to take a vote on the refueling bill at the final Committee meeting on Thursday, January 10, before putting the measure to the Upper House plenary session on Friday, January 11. The Lower House will then have two opportunities to override the Upper House and pass the bill into law by a two-thirds majority vote -- either on Friday January 11, or on Tuesday, January 15. Until then, the opposition will continue to stall deliberations in the Committee by calling witnesses to testify on a series of defense-related scandals. Discussion continues within the DPJ on whether to respond to use of the override vote with a censure motion in the Upper House condemning the Fukuda administration for ignoring the will of the voters as expressed in the July Upper House elections, DPJ contacts say.

#### LDP and DPJ Both Lose by Ignoring Voters

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¶6. (C) Regardless of when and how the refueling bill passes the Diet, the Japanese public is likely to be left feeling a bit cheated by both the LDP and the DPJ this session, according to Embassy contacts. While a fair number of the ruling coalition's minor livelihood-related bills have passed this term, with the full cooperation of the DPJ, little or nothing has been done to address the problems cited most often by voters over the past year, such as pensions, health and dependent care, employment, and growing economic disparities. The long partisan battle over the refueling bill could come at a high cost to both parties. The ruling coalition, by exercising the two-thirds override, will inevitably invite criticism for not having taken a stand on more serious issues for the domestic market. The DPJ, for its part, will need to answer for spending so much of the government's time on an issue that it knew from the start it could not win. The political gridlock engendered by the extended focus on the OEF bill has all but silenced serious debate on issues of much greater concern to the general public.

Despite Talk of Change, Early Elections Remain Unlikely  
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17. (C) Further down the line, the sense that neither party has met their needs could lead voters to question the current political structure and increase calls for political realignment. DPJ leader Ozawa was chastised within his own party for exploring the idea of a "grand coalition" with the ruling parties in early November, but DPJ contacts insist that he is still considering some sort of move to realize his dream of wielding real power. Talk of mergers among several of the LDP's internal factions, as well as a blending of the centrist elements within the LDP and DPJ, have also been mentioned by Embassy contacts across the political spectrum. Recent newspaper reports quoting unnamed senior LDP sources have also raised the specter of a Cabinet shuffle in the near-term, a possibility that has not been discussed seriously since Fukuda took office at the end of September.

18. (C) What has not changed with the past week's developments is the sense among Embassy contacts from all major parties and the media that Fukuda is not likely to dissolve the Lower House and call a general election until sometime after the G-8 summit in July. There is some speculation in the press and among a few Embassy contacts that the DPJ might seek to exploit the pension issue and the ever-widening defense scandals by pressing for a much earlier dissolution, but the consensus is that regardless of what happens in the remainder of this Diet session, neither the ruling parties nor the opposition see much benefit in trying to hold elections before they have candidates and financing in place and are

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ready to mount serious campaigns.  
SCHIEFFER